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CENTRAL INTELLIGENCE AGENCY OFFICE OF CURRENT INTELLIGENCE 18 January 1955

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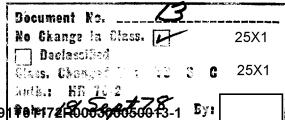
Deputy Director (Intelligence)

SUBJECT: The Economic Situation in Turkey

- l. Turkey's economic situation has deteriorated during the past several years, and a recent comprehensive study by American officials in Ankara indicates that the decline will continue unless direct remedial action is taken. The Menderes government appears determined to push its ambitious development program despite domestic inflation and foreign debt problems, apparently gambling on an increased flow of credit from Europe and on extensive economic assistance from the United States. American officials are, nevertheless, largely optimistic in terms of long-range prospects.
- Despite outward signs of economic prosperity, the cost of living is rising. The state monopolies recently announced price increases averaging 20 percent on the majority of their products. Mounting foreign trade deficits and the critical shortage of foreign exchange are resulting in a decline in the value of Turkish currency on the exchange market. The sharp decrease in imports reflects the growing foreign exchange shortage and the gradual drying up of normal credit sources abroad. There is a continuing shortage of essential raw materials, construction materials, and spare parts. In spite of this situation, the proposed Turkish budget for fiscal year 1955 provides for a 44-percent increase in government expenditures. This includes an increased outlay for the importation of machinery, industrial equipment and raw materials. Total projected expenditures for 1955 are 30 percent higher than fiscal year 1954.
- 3. The economic stabilization program has failed primarily because the government has followed an inflationary policy in pushing its development program. Turkey's foreign commercial arrearages are estimated to exceed \$150,000,000--despite continuing efforts to attain settlements through bilateral trade agreements.

Department of Commerce review(s) completed.

State Dept. review completed



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- The increasing reluctance of European countries to advance additional credits has turned Ankara toward bilateral and barter agreements. An expansion of trade with Soviet bloc countries, especially with the USSR, has resulted. key has sought to link the settlement of its commercial debts to the acquisition of foreign investment credit. Foreign credit promises, tied directly to the settlement of commercial debts, have been estimated as high as \$400,000,000.
- Turkey, with a steadily rising gross national product, has experienced the benefits of internal development, industrialization, and an expanding economy. The Menderes government is determined not to retrench this policy and looks with favor on any potential source of long-term loans. deres sought a \$500,000,000 loan from the American government last summer and is now renewing similar overtures.

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Rumors persist

that the USSR may offer credits to Turkey which may be in gold or dollars instead of rubles.

- Devaluation of the currency has been considered by some Western economists as the best approach to solving Tureconomic problems. Menderes, who may regard such action as politically impractical, in late December reasserted to a National Assembly committee that devaluation "will never be possible."
- The relatively gloomy economic assessment of Turkey's economic future made recently by officials of the International Bank for Reconstruction and Development may have been in part a result of personality conflicts between representatives of the bank who visited Turkey and officials of the Turkish government. These representatives tended to view the Turkish situation in terms of strict economic and banking principles.
- Responsible officials in the Departments of State and Commerce are mindful of Turkey's defense contribution and the importance of its leadership in the Middle East. They recognize that the problem is more political than economic. acknowledging the inherent dangers in the current situation, they nevertheless tend to discount the present dilemma and to regard the long-term outlook with restrained optimism. ful development is the current assembling of a joint American-Turkish "fact-finding and policy planning" staff, which will facilitate consultation, better co-ordination, and plan a course of action through 1960.

HUNTINGTON D. SHELDON Assistant Director, Current Intelligence

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TURKEY

I. THE ECONOMIC SITUATION IN TURKEY

Price Index (1950=100 percent)

	Wholesale		Retail	
	1953	1954	1953	1954
Jan Feb Mar Apr May June July Aug Sept Oct Nov Dec	110 111 110 111 111 109 106 106 108 109 112	119 123 121 121 122 121 122 - - -	106 105 105 106 107 108 108 109 109 109	115 116 114 120 121 122 119

*Source: Organization for European Economic Cooperation, General Statistics, No. 6, November 1955, p. 140.

II. CURRENCY EXCHANGE RATE (Official Selling Rate 2.825 Turkish Lira=1 US dollar)

Open Market Rate

1953		1954	
July Aug Sept Oct Nov Dec	5.20 TL=1 US \$ 5.42 5.70 5.62 5.62 5.59	Jan Feb Mar Apr May June July Aug Sept	5.58 5.78 5.97 6.35 6.08 6.32 6.33 5.91 6.31

^{*}International Monetary Fund, <u>International Financial</u> Statistics, December 1954, p. <u>158-159</u>.

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III. CUMULATIVE DEFICIT POSITION WITHIN EUROPEAN PAYMENTS UNION (Figures represent millions of US dollars)

	1953	1954
Jan Feb Mar Apr May June July Aug Sept Oct Nov Dec	-134.6 -128.4 -131.9 -127.0 -122.5 -120.3 -127.4 -120.4 -123.5 -125.1 -145.7 -159.1	-167.2 -172.8 -184.5 -206.3 -216.0 -215.7 -224.5 -225.3 -228.2

*Source: Foreign Operations Administration, European Regional Data Book, 1954.

IV. FOREIGN TRADE-AVERAGE MONTHLY FIGURES (Value in millions of US dollars)

	Imports	Exports	Balance
1946 1947 1948 1949 1950 1951 1952 1953 1954 (Jan-Sept only)	6.7 20.4 22.9 24.2 23.9 33.5 46.3 44.4	12.9 18.6 16.4 20.6 22.0 26.2 30.3 33.0 24.6	+6,2 -1.8 -6.5 -3.6 -1.9 -7.3 -16.0 -11.4 -15.5

*Source: Organization for European Co-operation, General Statistics, No. 6, November 1954.